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Retired and asset rich but cash poor? The pension loans scheme may help

To help pensioners who are rich in assets but poor in income, the government launched a version of a commercially available financial product, the reverse mortgage.

The government's answer for pensioners who find themselves in the above situation is its pension loans scheme (PLS), whereby a pensioner can apply for a non-taxable loan using some form of real property as security. The PLS does not provide a lump sum, but a regular fortnightly payment.

At present the scheme is only open to those on a full pension, but the 2018 Federal Budget announced the government intends to open the PLS to all pension-age retirees (not just those who qualify for the Age Pension).

Also from 1 July 2019 the maximum allowable income stream (combined Age Pension and PLS) will increase to be 50% higher than the full pension, including supplements.

A full age pensioner may be able to apply if:

- you or your partner are of Age Pension age
- you own real estate in Australia that can be used as security for the loan (home or investment)
- you or your partner receive a rate of payment that is less than the maximum pension amount or nothing (due to either the income or assets test, but not both)
- you meet Age Pension residence rules.

There are costs associated with the scheme, which the Department of Human Services (DHS) will determine (this department administers the scheme) and send to the person seeking the loan. The current rate of interest is 5.25%, which DHS adds to the outstanding loan balance each fortnight until the loan is repaid.

The loan recipient can repay the PLS loan in part or in full at any time. If the loan recipient wants to sell a property they need to inform DHS, and they can either transfer the loan to another property including a new home or they can repay the loan on the date of settlement. If there is an outstanding amount upon the loan recipient's death, the estate or in some cases the surviving partner's estate can make repayments.

The total loan available depends on the:

- equity in the property offered as security
- equity kept in the property, and
- the age of the recipient or their partner, whoever is younger.

Applicants can get a loan up to the maximum rate of income support payment they qualify for. Loan recipients may also use real estate owned by a private company or trust as security for the loan, if they are a controller of that company or trust. If there is more than one property, they can choose which to use as security for the loan.

DHS will register a charge with the Land Titles Office on the title deed of the property used as security, with recipients paying any costs associated with this charge. A licensed valuer will value the property, however this is done at no cost to the loan recipient.

Any person seeking a PLS should contact the DHS first to ensure they are eligible and to confirm the amount they can seek.

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